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DINAR AND DIRHAM EFFECT ON THE BANKING BUSINESS AND ITS SOLUTION

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Abstract.

One of the issues that might arise when implementing the use of Dinar and Dirham is how it will affect the banking business. The introduction of Dinar and Dirham will retard the growth of the existing banking business. Banks that exist today are based entirely on the concept of interest-bearing instruments (Bexley, et.al, 2000). At present, a major portion of bank's income is derived from interest income. Interest income is derived from the loan that was given out to a bank's customer, from depositor's funds after deducting the required reserve set by the law (Rose, 2000). Banks will loan out a portion of depositor's money and charge the borrower with interest. The borrower will then deposits this loan into his account in the same bank or other bank, in which a portion of this money will be loan out to some other customer. This is known as money multiplier or money creation (Fabozzi, et.al, 1998). With the implementation of Dinar and Dirham, such money multiplier activities will be difficult if not impossible to occur. This is because each Dinar and Dirham must be represented with actual money that contains a certain weight of gold and silver. In this case Dinar will have 4.3 grams of gold and Dirham will contain 3.0 grams of pure silver (www.e-dinar.com). Dinar and Dirham can be considered as 'real money' or 'live money' and it is difficult to simply create or print or controlling its supply and demand. This is due to the fact that gold and silver is limited in supply by natural factors and requires scarce resources to produce (Rose, 2000). Therefore, it is different from fiat money, in which its existence promotes money multiplier and interest charges.

Dinar and Dirham will promote real economy instead of financial economy. Under the Dinar and Dirham system, for every transaction, trades and investments, real physical money do change hands. Thus, we can say Dinar and Dirham can become a threat to the banking business due to the fact that it cannot be simply multiplied. As a result, the interest income derived from the money multiplier activity shall also be diminished. If this is the case, how banks will survive in the Dinar and Dirham system? The current economic and banking system is a system made by non-Muslim. It is time that Muslims of the world design its own economic and financial system (Ahmed, 2000). Banks have to be totally reformed. The present banking system is irrelevant in Dinar and Dirham system. Therefore this paper is to discuss the type of bank that should exist in the Dinar and Dirham system. The information presented is only conceptual, thus further research in different areas of this proposed type of bank is still needed to make it complete.

Introduction.

Let's begin with an issue. The introduction of Dinar and Dirham will retard the growth of the existing banking business. Banks that exist today are based entirely on the concept of interest bearing instruments (Bexley, et.al, 2000). At present, a major portion of bank's income is derived from interest income. Interest income is derived from the loan that was given out to a bank's customer, from depositor's funds after deducting the required reserve set by the law (Rose, 2000). Banks will loan out a portion of depositor's money and charge the borrower with interest. The borrower will then deposits this loan into his account in the same bank or other bank, in which a portion of this money will be loan out to some other customer. This is known as money multiplier or money creation (Fabozzi, et.al, 1998). A better illustration of money multiplier can be seen from figure 1.

Fig.1: An example of Money Multiplier transaction. Is this fair?

Transaction	Bank A	Bank B	Bank C	Bank D	Total Virtual Money Created
Initial Money Deposits (A)	100 Mil	90 Mil	81 Mil	72.9 Mil	90 Mil (from Bank B) + 81 Mil (from Bank C) + 72.9 Mil (from Bank D) = 243.9 Million. When initially there was only 100 Mil. If all depositors request the money, Bank will bankrupt!
Reserved & Liquidity Requirement (10%) (B)	10 Mil	9 Mil	8.1 Mil	7.29 Mil	
Loan to others (A) - (B)	90 Mil	81 Mil	72.9 Mil	65.61 Mil	

However, with the implementation of Dinar and Dirham, such money multiplier activities will be impossible to occur. This is because each Dinar and Dirham must be represented with actual money that contains a certain weight of gold and silver. In this case Dinar will have 4.3 grams of gold and Dirham will contain 3.0 grams of pure silver (www.e-dinar.com). Dinar and Dirham can be considered as 'real money' or 'live money' and it is difficult to simply create or print or controlling its supply and demand through the use of interest rate. This is due to the fact that gold and silver is limited in supply by natural factors and requires scarce resources to produce (Rose, 2000). Furthermore, in Dinar and Dirham system, a hundred percent reserve and liquidity requirement is required. Therefore, it is different from fiat money, in which its existence promotes money multiplier and interest charges.

Real economy versus Financial Economy: 'The Dilemma of Conventional Bank due to Dinar and Dirham'.

There are two types of economy. They are: (1) real economy and (2) financial economy. According to Joel Kurtzman in his book titled " The Death of Money", the 'real economy' is where products are made, trade is conducted, research is carried out and services are rendered. The real economy is where factory workers toil, doctors tend the sick, and where teachers teach and where roads, bridges, harbours, airports and railway systems are built". He further mentioned that, "The other economy, the 'financial economy', is somewhere between twenty and fifty times larger than the real economy. It is not the economy of trade but of speculation. Its commerce is in financial instruments. Mostly, it is concerned with the exchange of equities, such as stocks, and securities, such as bonds and other forms of debt. The latest and largest type of debt that the financial economy trades from a technical standpoint is money."

Unlike fiat money, which promotes 'financial economy', Dinar and Dirham will promote 'real economy'. Under the Dinar and Dirham system, for every transaction, trades and investments, real physical money do change hands. Thus, we can say Dinar and Dirham can become a threat to the banking business due to the fact that it cannot be simply multiplied. As a result, the interest income derived from the money multiplier activity will be diminished. According to Rais Umar Ibrahim Vadillo in his article titled *"Islamic Trading in the Modern World*"(www.murabitun.org), he said that based on traditional Islamic practice, banks are not needed. He also urged the Muslim society to get rid of the bank. In the present banking system, banks widened the gap between the riches (the haves) and the poor (the have-nots) through the use of interest (Diagram A). This gap cannot be narrowed by zakat because the fiat money system itself is already a Riba. However, under the Dinar and Dirham system, zakat and other Muamalat activities such as Musyarakah are bridging the riches and the poor. Zakat will be more practicable in the Dinar and Dirham system because Dinar and Dirham is not 'a promise to pay' as in the case of fiat money (Diagram B).

Diagram A: The present banking system

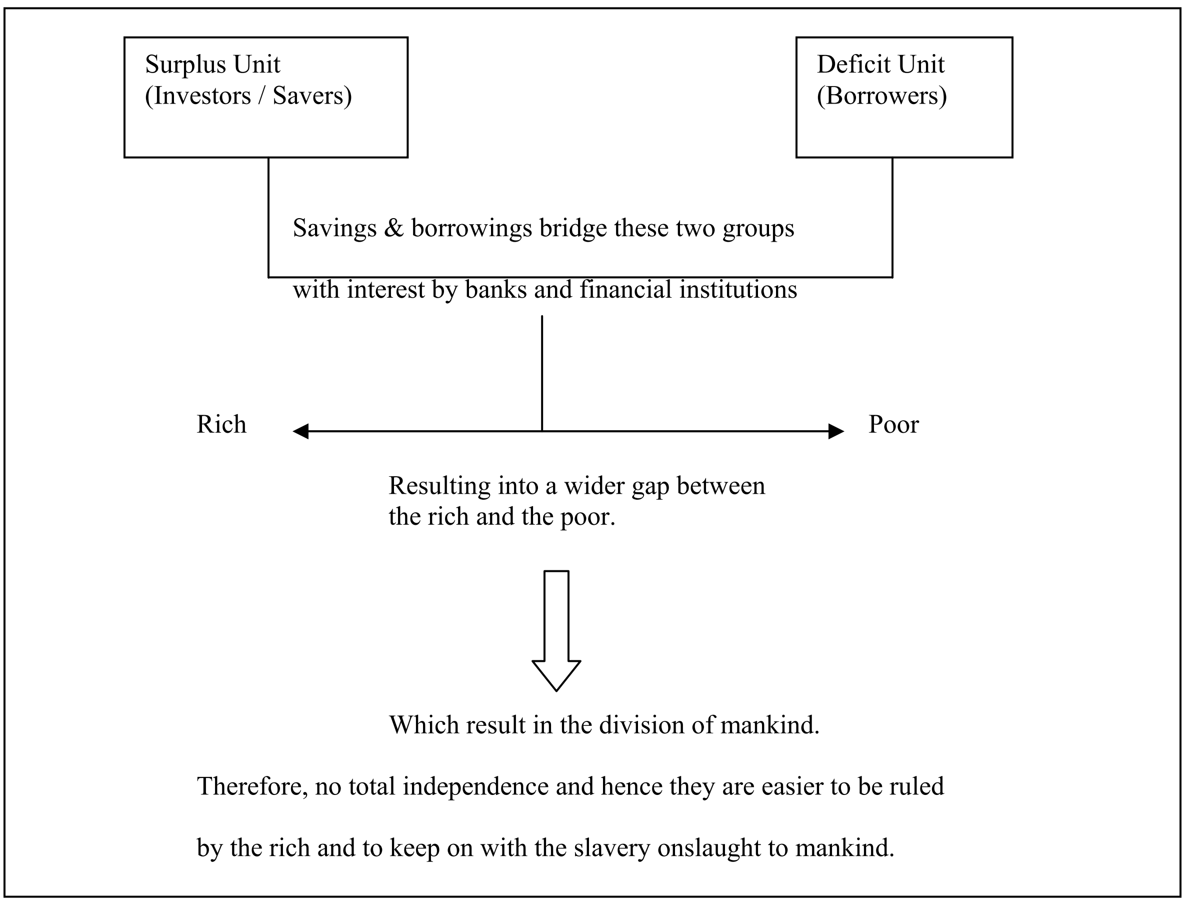
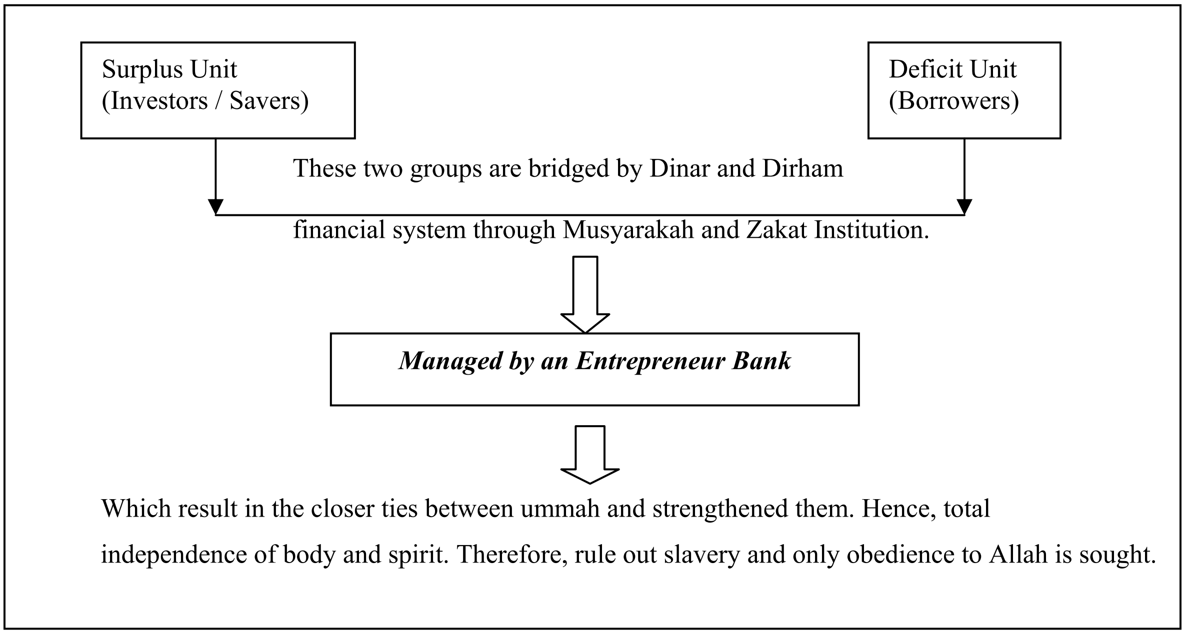


Diagram B: The proposed banking system.

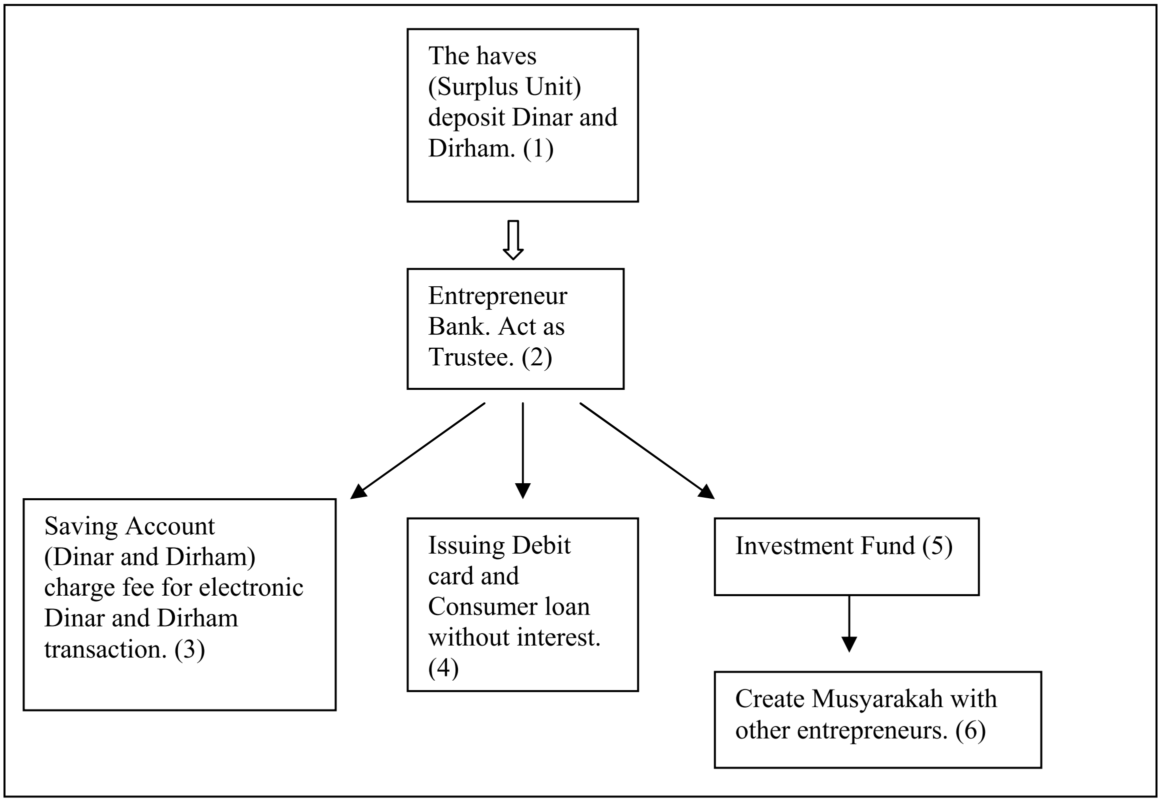


If this is the case, how banks will survive in the Dinar and Dirham system? The current economic and banking system is a system made by non-Muslim. Even with the existence of the so-called Islamic banks, Muslims are still skeptical about it operations (M.Jaffar, 2002). Many Muslims are now abandoning the so-called Islamic banks because they have realized that it is still a usurious institution in disguised as Islamic by its name and appearance. (Vadillo, *Islamic Trading in the Modern World*).

Solution for the Banking Industry.

It is time that Muslims of the world design its own economic and financial system (Ahmed, 2000). Banks have to be totally reformed. The new type of bank shall be called an 'Entrepreneur Bank' (En-Bank) (Diagram C). How will this bank operate? First and foremost, it is an entrepreneur by itself in which it will require its own capital to invest. It accepts deposits in terms of Dinar and Dirham and it operates electronically based on Dinar and Dirham. All Dinar and Dirham deposited into an entrepreneur bank is 'real money' with a hundred percent reserve requirement. Entrepreneur banks act as a safe keeper for Dinar and Dirham through the concept of Yad Amanah (trustee), therefore none of the deposited Dinar and Dirham shall be loaned out.

Diagram C: A Brief Layout of an Entrepreneur Bank



The Seven Tenets of an Entrepreneur Bank and Its Explanation.

Table 1 : Tenets of Entrepreneur Bank
1. Allah owns all the wealth in this world and bank only act as trustee or manager.
2. Promote real economy instead of financial economy.
3. Discourage debt and encourage Musyarakah or Joint venture profit and loss sharing.
4. Be an active partner and provide consultation to its partners.
5. Encourage spending on savings not on credit.
6. Encourage business creation and entrepreneurship.
7. Educate Muslim ummah on Muamalat matters.

Entrepreneur Bank's Tenet # 1: Allah owns all the wealth in this world and bank only act as trustee or manager.

An entrepreneur bank should be formed based on the above seven tenets (Table 1). First and foremost, banks should remind themselves that they are the trustees for Allah's wealth in this world. As mentioned in the Al-Quran;

To Him belongs what is in the heavens and on earth, and all between them, and all beneath the soil.

(Taha: 6)

To Allah belongth all that is the heavens and on earth. Whether ye show what is in your minds or conceal it, Allah calleth you to account for it. He forgiveth whom He pleaseth, and punisheth whom He pleaseth. For Allah hath power over all things.
(Al-Baqarah: 284)

It is He who hath made you (His) agents, inheritors of the earth: He has raised you in ranks, some above others: that He may try you in the gifts He hath given you: for thy Lord is quick in punishment: yet He is indeed Oft-Forgiving, Most Merciful.
(Al-An'aam: 165)

If the bank regards Allah as the supreme creator and supreme owner of all the wealth, he must also abide by Allah's rule. Allah strongly forbid Usury and Riba, as mentioned in the Al-Quran:

Those who devour usury will not stand except as stands one whom the Evil One by his touch hath driven to madness. That is because they say: "Trade is like usury", but Allah hath permitted trade and forbidden usury. Those who after receiving direction from their Lord, desist, shall be pardoned for the past; their case is for Allah (to judge); but those who repeat (the offence) are companions of the Fire; they will abide therein (forever).
(Al-Baqarah: 275)

Allah further forbid taking extra money out of debt, and He and his messenger declare war to those who commit Riba. In addition, He said without Riba, one will not do injustice to others, neither does others towards him or her. As mentioned in the Al-Quran:

O ye who believe! Fear Allah, and give up what remains of your demand for usury, if ye are indeed believers.
(Al-Baqarah: 278)
If ye do it not, take notice of war from Allah and His Messenger; but if ye turn back, ye shall have your capital sums; deal not unjustly; and ye shall not be dealt with unjustly.
(A-Baqarah: 279)

Entrepreneur Bank's Tenet # 2: Promote real economy instead of financial economy.

Ideally, banks should promote real economy instead of financial economy. The present banking system are so corrupted that it disguised usury as halal. In real fact, the banking system commits usury everyday, which result in death of thousands of people throughout the world, the starvation of many others, the creation of unemployment situation, the destruction of small business and the general impoverishment of most mankind. In short banks are regard as destructive, parasites, usurious, promote slavery, monopolistic and bloodsucker. (Vadillo, *Islamic Trading in the Modern World)*. Therefore, banks have to be shifted from these negative remarks. They have to leave these traditional roles (refer to Diagram A) and set to become the institution that promote the development of Muslim ummah (refer to Diagram B). One of the objectives of Islamic financial system in the context of tawheed and taqwa is to make the life in this world a happier and prosper place through a financial system that portrays an Islamic socioeconomic values. In an Islamic ethics, each and every one of us has the obligation to contribute to create a system based on Islamic teachings. Islam gives the rights to its

ummah to seek help from one another and help each other according to each ability (Yakcop, 1996). Therefore, an entrepreneur bank has the obligation to help Muslim ummah to develop themselves in order to prosper the society.

Entrepreneur Bank's Tenet # 3: Discourage debt and encourage Musyarakah or Joint venture profit and loss sharing.

Fundamentally, banks should change its role from becoming a debt provider to a partnership (*Musyarakah*). Debt should be highly discouraged and should be avoided whenever possible. As mentioned in a hadith narrated by 'Aisha (r.a), the wife of the Prophet: Allah Apostle used to invoke Allah in the prayer saying ".... O Allah, I seek refuge with You from the sins and from being in debt." Somebody said to him, "Why do you so frequently seek refuge with Allah from being in debt?" The Prophet replied, "A person in debt tells lies whenever he speaks, and break promises whenever he makes them". This clearly showed that being in debt should be avoided. How can this be possible for banks? Perhaps, banks should become a trustee and a partner in business, instead of being a guarantor for debts.

Entrepreneur Bank's Tenet # 4: Be an active partner and provide consultation to its partners.

Here, an entrepreneur bank should become an active partner and able to provide professional consultation to entrepreneurs. If a customer approach the bank for business loan, an entrepreneur bank should treat it as a partnership (Musyarakah Mutanaqisah), in which the bank shall also take part in running the business. Musyarakah Mutanaqisah (Diminishing Partnership) is the sharing of the revenue with progressive dilution of shareholding. An entrepreneur bank shall not merely observe from afar and reaps the profit when the business succeeds and left the business in despair when it fails such as in the present situation. Banks should provide advises and assistance to entrepreneurs on how to improve the performance of their business. This is the most crucial element in an entrepreneur bank because this may become its major source of income replacing the interest income. Initially, the ownership of the business will be divided between the entrepreneur and the bank with the ratio agreed by both parties. The entrepreneur shall buy the shares from the bank through its profit until they owned 100 % of the business. In other words, banks have to release the business to the entrepreneur when they afford to buy back all its shares.

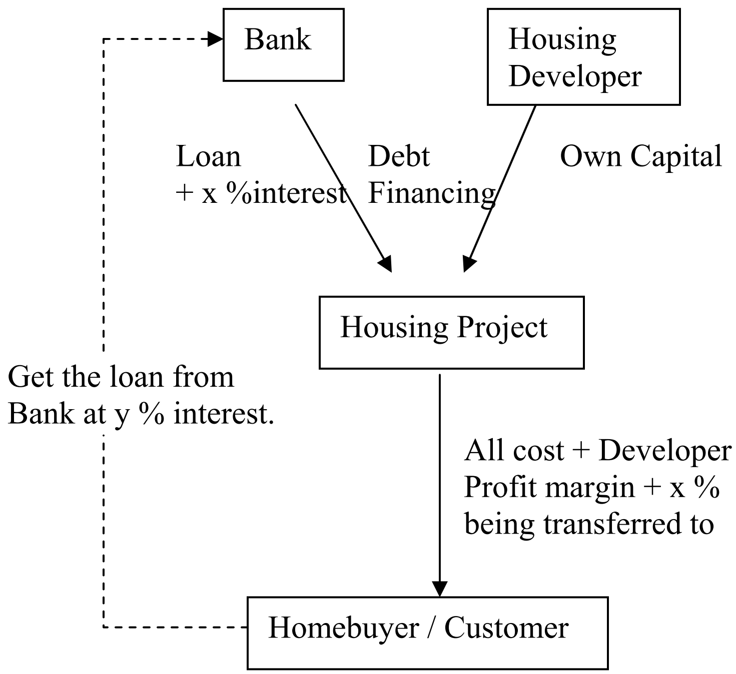
Entrepreneur Bank's Tenet # 5: Encourage spending on savings not on credit.

An entrepreneur bank should encourage spending on savings instead of spending on credit. If its customers want to buy a car or a house, or planning to go for a vacation, design their financial planning so that they can afford it. Perhaps, customer may opt for Musyarakah Mutanaqisah Home Financing (Lease Purchase with Diminishing Partnership) In a Musharaka Mutanaqisah home financing scheme the customer and financier (Islamic Bank) jointly acquire and own the property. The financier then leases his share of the property to the customer on the basis of Ijara (lease). The customer, as an owner-tenant, promises to acquire periodically the financier's in the property. The customer pays rental to the financier under Ijara, which partially contributes towards increasing their share in the property. (eg. If the bank owns 70% of the property and the customer owns 30%, and the customer's monthly rental is RM1,000 then RM700 goes to bank and RM300 goes to increase the customer's share of the property.) At the end of the lease term and upon payment of all lease rentals the customer would have acquired all the financier's shares and the partnership will come to an end with the customer being the sole owner of the house (www.ihilal.com). Refering to Diagram D, under the present scenario, banks will receive double

interest income, which is x percent from house developer and y percent from homebuyer. Whereas under the entrepreneur banking system, once the bank received income from investing in the housing project, it will not charge anything from home-buyer for the Musyarakah Mutanaqisah agreement except for the fees incurred (such as legal fees, etc.) to purchase the house.

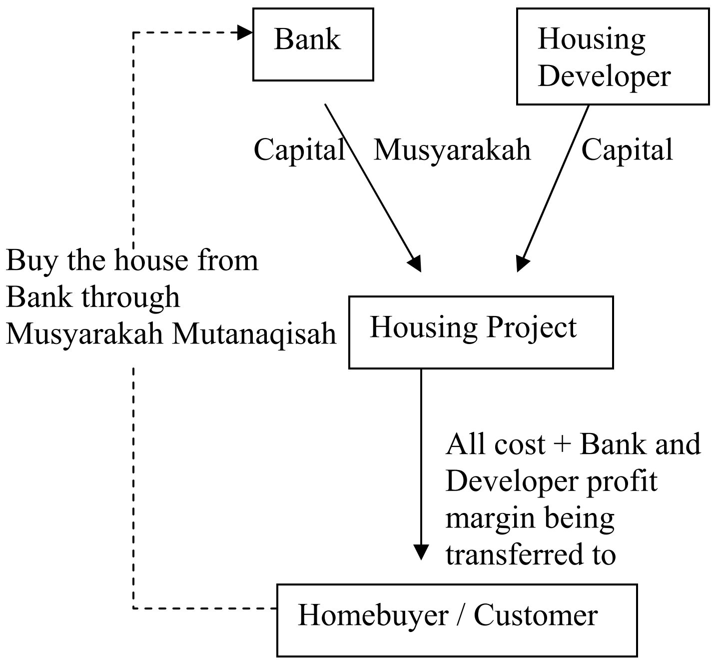
Diagram D: Comparison Between Present Scenario and Proposed Scenario under Entrepreneur bank for Home-Financing

Present scenario



Note: In this scenario, bank received double interest income, which is x % from the housing developer and y % from homebuyer.

Proposed scenario (Entrepreneur Bank)



Note: In this scenario, bank only received income from its investment in developing the house and selling it to home buyer. No income will be derived from the Musyarakah Mutanaqisah agreement between the bank and the homebuyer.

For smaller expenses, an entrepreneur bank should encourage the used of debit card instead of credit card. Credit card promotes over-spending, which means a person spends using money that he or she does not have. This is against Islamic teaching, as mentioned in the Al-Quran:

Those who, when they spend, are not extravagant and not riggardly, but hold a just (balance) between those extremes.

(Al-Furqan: 67)

Allah further stated that overspend makes a person closer to the devil, as mentioned in the Al-Quran:

Verily spendthrifts are brothers of the Evil Ones; and the Evil One is to his Lord (Himself) ungrateful.

(Al-Isra': 27)

Entrepreneur Bank's Tenet # 6: Encourage business creation and entrepreneurship.

Next, an entrepreneur bank should encourage Muslims to do business instead of working with others. The Prophet encouraged his ummah to do business. Al Suyuti mentioned in Al Jami` Al Saghir, a Hadith on the authority of Rafi` that: The Prophet (pbuh) was asked: "which are the best forms of income generation?" He (pbuh) replied: "A man's labor, and every legitimate sale". This will give all Muslims an equal opportunity to prosper and at the same time, discourage monopoly business. Those who worked hard enough will earn a just reward for their effort. As mentioned in the Al-Quran:

And when the Prayer is finished, then may ye dispersed through the land, and seek of the Bounty of Allah: and celebrate the Praises of Allah often (and without stint): that ye may prosper.

(Al-Jumu'a: 10)

Entrepreneur Bank's Tenet # 7: Educate Muslim ummah on Muamalat matters.

Last but not least, an entrepreneur bank should educate the Muslim ummah about Muamalat matters and help strengthened the ummah faith and belief in Allah. This is because the stronger the faith and belief in Allah, the stronger they will be in adhering to Allah's command. A research conducted in Kuala Lumpur, Malaysia showed that almost all Muslim's respondent knew the existence of Islamic banking in Malaysia, however, only half of it used the facilities. Out of this half, only 15 percent able to answer correctly the meaning of each product offered by Islamic banks. This is due to the fact that Muamalat does not being emphasize in the early stage of learning about Islam (Abdul Hamid, 2001). An entrepreneur bank should therefore emphasis the teaching of Muamalat and daily transaction activities to the Muslim ummah.

Conclusion.

Finally, banks should be more innovative, creative, more sophisticated and more professional when dealing with Dinar and Dirham system. The newly designed e-Dinar may take most of banks' role as the medium for payment (www.e-dinar.com). It is only a matter of times that Dinar and Dirham system becomes a reality. And hopefully, when it's finally arrived, banks are prepared with the new renaissance of an Islamic monetary system.

To fine tune with this ideal ideology, lets contemplate this hadith narrated by Abu Huraira : The Prophet said, “An Israeli man asked another Israeli to lend him one thousand Dinars. The second man required witness. The former replied, “Allah is sufficient as a witness.” The second said, “I want a surety.” The former replied, “Allah is sufficient as a surety.” The second said, “You are right”, and lend him the money for a certain period. The debtor went across the sea. When he finished his job, he searched for a conveyance so that he might reach in time for the repayment of the debt, but he could not find any. So, he took a piece of wood and made a hole in it, inserted in it one thousand Dinars and a letter to the lender and then closed, i.e., sealed the hole tightly. He took the piece of wood to the sea and said, “O Allah! You know well that I took a loan of one thousand Dinars from so and so. He demanded surety from me, but I told him that Allah’s guarantee was sufficient and he accepted Your guarantee. He then asked for a witness and I told him that Allah was sufficient as a witness, and he accepted you as a witness. No doubt, I tried hard to find a conveyance so that I could pay his money but could not find, so I hand over this money to You.” Saying that, he threw the piece of wood into the sea till it went far into it, and then he went away. Meanwhile he started searching for a conveyance in order to reach the creditor’s country. One day, the lender came out of his house to see whether a ship had arrived bringing his money, and all of a sudden he saw a piece of wood in which his money had been deposited. He took it home to use for fire. When he sawed it, he found his money and the letter inside it. Shortly after that, the debtor came bringing one thousand Dinars to him and said, “By Allah, I had been trying hard to get a boat so that I could bring you your money, but failed to get one before the one I have come by.” The lender asked, “Have you send something to me?” The debtor replied, “I have told you I could not get a boat other than the one I have come by.” The lender said, “Allah has delivered on your behalf the money you sent in the piece of wood. So, you may keep your one thousand Dinars and depart guided on the right path.” This hadith tells us that if we are honest and sincere in our endeavor to create a true Islamic monetary system as well as creating a just and fair banking system, Allah surely will give us the way.

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